

Message Text

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72

ACTION TRSE-00

INFO OCT-01 ARA-16 ISO-00 SPC-03 SAM-01 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 L-03

H-03 IO-14 EA-11 FEA-02 INT-08 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 PA-04

PRS-01 USIA-15 DRC-01 /196 W
----- 115115

R 091340Z FEB 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 1758

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 976

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: 40 PERCENT DEPOSIT REQUIREMENT LIFTED

REF: BRASILIA 934

1. NATIONAL MONETARY COUNCIL LIFTED 40 PERCENT DEPOSIT REQUIREMENT ON FOREIGN FINANCIAL LOANS EFFECTIVE FEBRUARY 8, 1974. MINIMUM TERMS OF 10 YEARS FOR THESE CREDITS REMAIN UNCHANGED.

2. MOVE FOLLOWS COUNCIL DECISIONS TAKEN EARLIER THIS WEEK TO (A) RAISE CEILING ON CENTRAL BANK REDISCOUNT FACILITY WITH COMMERCIAL BANKS AND (B) EXEMPT THREE PUBLIC CORPORATIONS FROM 40 PERCENT DEPOSIT (REFTEL). PRIMARY OBJECTIVE OF ALL THESE MEASURES IS TO COMBAT IMPACT HIGH PETROLEUM PRICES ON ECONOMY. FACT THAT STEPS HAVE BEEN TAKEN DURING THE LAST DAYS OF OUTGOING ADMINISTRATION INDICATES (A) AUTHORITIES ARE CONCERNED WITH ECONOMIC CONSEQUENCES OF HIGHER PETROLEUM PRICES AND WISH TO WASTE NO TIME IN CONFRONTING THEM AND (B) CHANGE IN
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ADMINISTRATION IS BEIN EFFECTED WITH MINIMUM DISTURBANCE ON

ECONOMIC POLICY-MAKING MACHINERY. (NEWSPAPER REPORTS INDICATE THAT THE NEXT MINISTER OF FINANCE WILL BE MARIO HENRIQUE SIMONSEN WHO IS CURRENTLY CONNECTED WITH THE GETULIO VARGAS FOUNDATION.)

3. WHAT INFLUENCE ELIMINATION 40 PERCENT DEPOSIT WILL HAVE ON ADDITIONAL CAPITAL FLOWS INTO BRAZIL IS DIFFICULT TO GAUGE WITH ANY CLARITY IN LIGHT UNCERTAIN OUTLOOK FOR INTERNATIONAL MONEY MARKETS CONNECTED WITH CONSEQUENCES ENERGY CRISIS. IN ADDITION, AS TIME GOES ON AND ANTICIPATED INTERNATIONAL LIQUIDITY SQUEEZE FROM HIGHER OIL PRICES BEGINS TO PINCH, BRAZIL MAY FIND IT DIFFICULT TO BORROW ON 10 YEAR TERMS EVEN IN ABSENCE OF DEPOSIT REQUIREMENT. ALSO THE JAPANESE WHO WERE VERY ACTIVELY LENDING TO BRAZIL LAST YEAR BEFORE THE 40 PERCENT DEPOSIT WAS IMPOSED, ARE NOT NOW IN POSITION TO RESUME MAKING LARGE AMOUNTS OF CREDITS TO BRAZIL AS THEIR OWN BALANCE OF PAYMENTS FACES SEVERE DIFFICULTIES.
TUCH

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Message Attributes

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30 JUN 2005

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